

WEST CENTRAL MENTAL HEALTH CENTER, INC.

FINANCIAL STATEMENTS

JUNE 30, 2006

CONTENTS

	Page
Board of directors	1
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS	
Statement of financial position	3
Statement of activities	4
Statement of functional expenses	5
Statement of cash flows	6
Notes to financial statements	7-10
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	11 and 12
Schedule of findings	13

WEST CENTRAL MENTAL HEALTH CENTER, INC.

BOARD OF DIRECTORS

June 30, 2006

ADAIR COUNTY

Bob Grasty, Supervisor
302 SW 3rd
Greenfield, IA 50849

Arlene Schwartz – Vice-Pres.
308 W. Iowa St.
Greenfield, IA 50849

Tom Bingaman
2080 York Ave.
Greenfield, IA 50849

DALLAS COUNTY

Brad Golightly, Supervisor
Courthouse #100
Adel, IA 50003

Arden Augspurger
1916 Bear Creek Rd
Earlham, IA 50072

Ed Butler
15422 Rosewood Dr.
Clive, IA 50325

GUTHRIE COUNTY

Kevin Wirt, Supervisor
3328 Hwy 44
Panora, IA 50216

Janet Oberholtz – President
2345 Redwood Ave.
Guthrie Center, IA 50115

Lynnee Andersen – Sec/Treas.
Guthrie County Hospital
710 N. 12th St.
Guthrie Center, IA 50115

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
West Central Mental Health Center, Inc.
Adel, Iowa 50003

We have audited the accompanying statement of financial position of West Central Mental Health Center, Inc. (a nonprofit organization) as of June 30, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not audit the accounts receivable and related fees from patients including potential cost settlements because of the board's policy on confidentiality.

In our opinion, except for the effects of any adjustments that might have resulted had we been able to audit the accounts receivable and related fees from patients, the financial statements referred to above present fairly, in all material respects, the financial position of West Central Mental Health Center, Inc. at June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2006 on our consideration of West Central Mental Health Center, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Brooks Lodden, P.C.

West Des Moines, Iowa
July 27, 2006

WEST CENTRAL MENTAL HEALTH CENTER, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2006

ASSETS

Cash	\$ 104,074
Accounts receivable, patient services, less allowance for doubtful accounts \$60,652:	
Patients and third-party providers (Note 3)	111,996
Other (Note 4)	12,905
Prepaid expenses	16,800
Property and equipment, net of accumulated depreciation \$222,018 (Note 5)	<u>328,942</u>
Total assets	<u><u>\$ 574,717</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 66,567
Accrued salaries	<u>477</u>
Total liabilities	<u>\$ 67,044</u>

NET ASSETS

Unrestricted	<u>\$ 507,673</u>
Total assets	<u>\$ 507,673</u>
Total liabilities and net assets	<u><u>\$ 574,717</u></u>

See Notes to Financial Statements.

WEST CENTRAL MENTAL HEALTH CENTER, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Public support:			
Contributions	\$ -	\$ 5,566	\$ 5,566
Fees and grants from government agencies:			
Dallas County	\$ 296,939	\$ -	\$ 296,939
Adair County	60,510	-	60,510
Guthrie County	67,041	-	67,041
Community Mental Health Services Block Grant	52,335	-	52,335
Other Services	1,625	-	1,625
Total fees and grants from government agencies	<u>\$ 478,450</u>	<u>\$ -</u>	<u>\$ 478,450</u>
Revenue:			
Patient fees - net of non-collectibles written off	\$ 56,416	\$ -	\$ 56,416
Title XIX, Medicare, and insurance	336,854	-	336,854
Interest income	277	-	277
Gain on sale of investments	7,022	-	7,022
Gain on disposal of property and equipment	5,938	-	5,938
Miscellaneous income	4,692	-	4,692
Total revenue	<u>\$ 411,199</u>	<u>\$ -</u>	<u>\$ 411,199</u>
Net assets released from restrictions:			
Satisfaction of program restrictions	\$ 5,947	\$ (5,947)	\$ -
Total public support and revenue	<u>\$ 895,596</u>	<u>\$ (381)</u>	<u>\$ 895,215</u>
EXPENSES			
Program services:			
Mental health center programs	\$ 509,664	\$ -	\$ 509,664
Supported community living programs	105,554	-	105,554
Total program services	<u>\$ 615,218</u>	<u>\$ -</u>	<u>\$ 615,218</u>
Supporting activity	<u>\$ 266,231</u>	<u>\$ -</u>	<u>\$ 266,231</u>
Total expenses	<u>\$ 881,449</u>	<u>\$ -</u>	<u>\$ 881,449</u>
CHANGES IN NET ASSETS	\$ 14,147	\$ (381)	\$ 13,766
NET ASSETS, beginning of year	<u>493,526</u>	<u>381</u>	<u>493,907</u>
NET ASSETS, end of year	<u><u>\$ 507,673</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 507,673</u></u>

See Notes to Financial Statements.

WEST CENTRAL MENTAL HEALTH CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2006

	Mental Health Center Programs	Supported Community Living Programs	Total Programs	Supporting Activity Management and General	Total
Salaries	\$ 230,458	\$ 68,297	\$ 298,755	\$ 151,512	\$ 450,267
Payroll taxes	19,111	5,401	24,512	12,218	36,730
Group health insurance	20,944	5,105	26,049	13,390	39,439
Retirement expense	7,655	4,284	11,939	4,894	16,833
Other employee benefits	4,819	592	5,411	1,052	6,463
Total salaries and related expenses	<u>\$ 282,987</u>	<u>\$ 83,679</u>	<u>\$ 366,666</u>	<u>\$ 183,066</u>	<u>\$ 549,732</u>
Consultation	138,386	-	138,386	4,350	142,736
After hours crisis	2,752	-	2,752	-	2,752
Legal and accounting	2,274	-	2,274	38,061	40,335
Contract labor	1,596	-	1,596	1,952	3,548
Professional supplies	4,126	4	4,130	260	4,390
Office supplies	7,096	419	7,515	3,495	11,010
Utilities and telephone	11,624	2,702	14,326	5,725	20,051
Postage	2,693	428	3,121	1,326	4,447
Rent	6,040	-	6,040	-	6,040
Repairs and maintenance	8,461	282	8,743	8,314	17,057
Dues and subscriptions	1,852	90	1,942	912	2,854
Transportation expenses	6,549	3,937	10,486	2,403	12,889
Insurance	13,183	6,964	20,147	6,493	26,640
Advertising	2,140	219	2,359	1,054	3,413
Miscellaneous	184	1,783	1,967	92	2,059
Total expenses before depreciation	<u>\$ 491,943</u>	<u>\$ 100,507</u>	<u>\$ 592,450</u>	<u>\$ 257,503</u>	<u>\$ 849,953</u>
Depreciation	<u>17,721</u>	<u>5,047</u>	<u>22,768</u>	<u>8,728</u>	<u>31,496</u>
Total expenses	<u><u>\$ 509,664</u></u>	<u><u>\$ 105,554</u></u>	<u><u>\$ 615,218</u></u>	<u><u>\$ 266,231</u></u>	<u><u>\$ 881,449</u></u>

See Notes to Financial Statements.

WEST CENTRAL MENTAL HEALTH CENTER, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in net assets	\$ 13,766
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:	
Depreciation	31,496
Gain on sale of investments	(7,022)
Gain on disposal of property and equipment	(5,938)
Change in assets and liabilities:	
(Increase) in patient accounts receivables	(69,467)
(Increase) in other receivables	(12,703)
Decrease in prepaid expenses	5,110
Increase in accounts payable	62,914
(Decrease) in accrued salaries	(29,271)
(Decrease) in accrued payroll withholdings	(200)
(Decrease) in deferred income	(19)
Net cash (used in) operating activities	<u>\$ (11,334)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of investments	\$ 7,022
Proceeds from sale of property and equipment	13,300
Purchase of property and equipment	<u>(42,383)</u>
Net cash (used in) investing activities	<u>\$ (22,061)</u>
 Net (decrease) in cash	 \$ (33,395)

Cash:	
Beginning	<u>137,469</u>
Ending	<u><u>\$ 104,074</u></u>

See Notes to Financial Statements.

WEST CENTRAL MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization

Reporting entity:

West Central Mental Health Center, Inc. (the Center) is a non-profit corporation established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. Services are provided to residents of Dallas, Adair and Guthrie Counties.

The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law.

Note 2. Summary of Significant Accounting Policies

Classification of net assets:

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Center and changes therein are classified and reported as follows:

Unrestricted – assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. The Center's board may designate portions of the unrestricted net assets as board-designated for specific purposes, projects or investment as an aid in the planning of expenses and the conservation of assets.

Temporarily restricted – assets resulting from contributions and other inflows of assets whose use by the Center is limited to donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Center meeting the purpose of the restriction.

Permanently restricted – assets resulting from contributions which are permanently restricted by donors. Although such assets may not be expended, the investment income earned on them may be expended for any purpose. Currently, the Center has no permanently restricted net assets.

Use of estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents:

For purposes of the statement of cash flows, the Center considers cash on hand and in banks and investments with a maturity of less than a year to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (*Continued*)

Patient receivables:

Patient receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a charge to receivables based on its assessment of the current status and billing rates of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to patient receivables. Changes in the valuation allowance have not been material to the financial statements. Management closely monitors outstanding balances and writes off all balances that will not be collected.

Property and equipment:

Property and equipment is recorded at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years.

Compensated absences:

The Center's employees accumulated a limited amount of earned but unused vacation benefits. Amounts representing the cost of compensated absences are recorded as liabilities and have been computed based on current rates of pay in effect at June 30, 2006.

Net patient service revenue:

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, counties, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Functional allocations of expenses:

The Center allocates expenses on a functional basis among direct program services and management and general. Expenses are allocated directly to the program service or supporting activity benefited. Certain expenses are allocated using an estimated percentage base.

Note 3. Accounts Receivable

Accounts receivable is stated net of allowance for doubtful accounts, which is estimated as a percentage of fees billed. The allowance for doubtful accounts represents those patient receivables which are doubtful of collection, as well as estimated third-party contractual adjustments.

Note 4. Other Receivables

Other receivables consist of a grant receivable from Iowa Medicaid Enterprise for services provided during the year ended June 30, 2006 in the amount of \$11,971 and a miscellaneous receivable in the amount of \$934.

NOTES TO FINANCIAL STATEMENTS

Note 5. Property and Equipment

A summary of changes in property and equipment is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land	\$ 19,000	\$ -	\$ -	\$ 19,000
Building	399,564	6,444	-	406,008
Landscaping	20,270	-	-	20,270
Furniture, fixtures and equipment	166,126	35,939	114,912	87,153
Leasehold improvement	380	-	-	380
Vehicles	<u>55,932</u>	<u>-</u>	<u>37,783</u>	<u>18,149</u>
Total	<u>\$661,272</u>	<u>\$ 42,383</u>	<u>\$152,695</u>	<u>\$550,960</u>

Note 6. Line of Credit

The Center has a line of credit for \$75,000, which bears interest at 1.00 percent above the prime rate set from time-to-time by Wells Fargo Bank, N.A. (9.25 percent as of June 30, 2006). The line of credit requires monthly interest only payments until January 2007, at which time all outstanding principal plus all accrued unpaid interest is payable. The outstanding balance on the line at June 30, 2006 was \$-0-. The line of credit is secured by all assets of the Center.

Note 7. Retirement Plan

A defined contribution pension plan for eligible employees is maintained by the Center. The funding is current as of June 30, 2006. Net pension expense for the current year ended June 30, 2006 was \$16,833. The plan has a six-month waiting period for participation for all employees.

Note 8. Operating Leases

The Center, as the lessee, leases a copy machine under an operating lease that requires monthly rental and maintenance agreement payments of \$277.28, through June 2009. Lease expense for the copy machine totaled \$3,327 for the year ended June 30, 2006.

The following is a schedule of non-cancelable future minimum lease payments required under the operating lease:

<u>June 30,</u>	
2007	\$ 3,327
2008	3,327
2009	<u>3,327</u>
Total	<u>\$ 9,981</u>

NOTES TO FINANCIAL STATEMENTS

Note 9. Concentration of Credit Risk

Financial instruments that potentially subject the Center to concentrations of credit risk consist principally of demand deposits located at a financial institution. These demand deposits exceeded the federally insured limit of \$100,000 at times throughout the year.

The Center provides counseling to individuals in a three-county area. The Center grants credit to these individuals and the three counties.

The Center receives a substantial amount of its revenue from third-party payors, including Medicare, Medicaid, three counties and several insurance companies. A significant reduction in reimbursement by any of these third-party payors could have a material impact on the Center's programs and services. Support from Dallas County provides for 62 percent of total fees and grants from government agencies.

Note 10. Center Risk Management

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
West Central Mental Health Center, Inc.:
Adel, Iowa

We have audited the financial statements of West Central Mental Health Center, Inc. (a nonprofit organization) as of and for the year ended June 30, 2006, and have issued our report thereon dated July 27, 2006, which was qualified because we did not audit the accounts receivable and related fees from patients because of the board's policy on confidentiality. Except as described in the preceding sentence, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered West Central Mental Health Center, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the West Central Mental Health Center, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2006-a. We also noted other matters involving internal control over financial reporting, which we have reported to management of the Center in a separate letter dated July 27, 2006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition as item 2006-a to be a material weakness. Prior year reportable conditions have not been resolved.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the West Central Mental Health Center, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Center's management and Board of Directors and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

West Des Moines, Iowa
July 27, 2006

WEST CENTRAL MENTAL HEALTH CENTER, INC.

SCHEDULE OF FINDINGS

Findings Related to the General Purpose Financial Statements:

Reportable Condition:

2006-a **Segregation of Duties** – During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the Center's financial statements. Because of the limited number of personnel involved, some duties concerning cash receipts, cash disbursements and general accounting were performed by one individual. Also, individuals who handle cash transactions and control assets have access to accounting records. Therefore, most of the aspects of internal control, which rely on segregation of duties, were non-existent at the Center for the first months of fiscal year ended June 30, 2006.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, we noted the Center has implemented the operating procedures to obtain the maximum internal control possible with the current number of staff.

Response – The fiscal year 2004-2005 audit report was submitted to West Central Mental Health Center staff and the board of directors in September 2005. The report noted the issue regarding the segregation of duties. The issue was resolved immediately. However, it was raised again in this report because the audit covered a period of time (July, August, and part of September 2005) before the staff and board were notified of the situation.

Conclusion – Response accepted.